Percentage of Uninsured Wisconsin Drivers
Estimated by the Insurance Research Council

1999	12.1%
2000	12.6%
2001	13.4%
2002	14.4%
2003	14.2%
2004	14.2%

CEJ

NFHA
National Fair Housing Alliance

CFA Consumer Federation of America

NATIONAL CONSUMER LAW CENTER

For Immediate Release

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Consumer and Civil Rights Groups Reject Federal Report on Insurance Credit Scoring

Fatally-Flawed Report Relies on Handpicked Data by Insurance Industry, Fails to Respond to Congressional Mandate

WASHINGTON, DC – July 24, 2007 – Representatives of consumer and civil rights organizations today condemned a congressionally-mandated report on insurance credit scoring by the Federal Trade Commission (FTC) as biased insurance industry propaganda. The groups called for Congress to reject the defective study and ban the use of credit scoring in insurance.

Insurance credit scoring is the use by insurers of consumers' credit reports for determining insurance eligibility and premiums. Unknown to most consumers, insurers' use of consumer credit information has spread to almost all insurers and is one of the most important factors in determining how much a consumer pays for auto or homeowners insurance.

Previous studies by the Missouri and Texas Departments of Insurance have found that insurance scoring discriminates against low income and minority consumers because of the racial and economic disparities inherent in scoring. The Missouri study concluded that a consumer's race was the single most predictive factor determining a consumer's insurance score and, consequently, the consumer's insurance premium.

Before the introduction of the credit scoring systems the insurance industry had used other unsupported standards and stereotypes with a racial proxy effect. After the major companies were sued for fair housing violations and were forced to eliminate these practices, the industry introduced a new practice – credit-based insurance scoring – that consumer and civil rights groups see as re-introducing racial and ethnic effects into the pricing of insurance.

The relationship between insurance credit scores and race is so strong that even though the FTC used data handpicked by the industry, it found that credit scoring discriminates against low income and minority consumers, and that insurance scoring was a proxy for race.

Representatives of the Consumer Federation of America, the National Fair Housing Alliance, the National Consumer Law Center, and the Center for Economic Justice said the FTC study is fatally flawed because the insurance industry controlled the data used in the analysis. Instead of requiring the submission of comprehensive policy data by a large number of insurers, the FTC used data handpicked by the insurance industry.

"The FTC's approach to collecting data for the analysis is like the federal government trying to do a study on the health impacts of tobacco use with data selected by tobacco companies for the study," said Allen Fishbein of the Consumer Federation of America. "By relying on handpicked data, the insurance industry was unnecessarily given opportunity to control the outcome of the study."

The FTC study also confirms that, despite growing reliance on credit-based insurance scores, scant evidence exists to prove there is a meaningful connection between a consumer's score and auto insurance losses. Without the need to demonstrate such a connection, insurers could use any consumer characteristic, such as hair color, to price insurance products.

"Despite finding no explanation for the alleged connection between insurance scores and losses, the FTC report somehow concludes credit scoring is valid and good for consumers. This is not an impartial analysis, but simply advocacy for insurers," said Birny Birnbaum of the Center for Economic Justice. Birnbaum, a former insurance regulator, has studied insurance scoring for over 15 years.

The groups also dismissed the report for failing to respond to the Congressional mandate to examine the impacts of insurance credit scoring on the availability and affordability of auto and homeowners insurance, and for parroting insurance industry propaganda about insurance credit scoring. Section 215 of the Fair and Accurate Credit Transactions Act of 2003 required the Federal Reserve Board and the FTC to study the impact of credit scoring on the availability and affordability of credit and insurance and to determine whether credit scoring was truly related to insurance losses or simply a proxy for race, income or other factors.

"Incredibly, the FTC report downplays its own findings about the racial impact of insurance scoring – the primary question asked by Congress – and emphasizes the allegedly 'predictive' nature of credit scoring," said Chi Chi Wu, staff attorney at the National Consumer Law Center. "It's outrageous that the FTC says that 'credit scoring is good for consumers' when it has a disparate impact on minorities. The FTC appears to believe minorities aren't 'consumers' worth protecting."

Buried in the report is the fact that the alleged correlation between risk and credit-based insurance scores might be explained by other factors. Instead of pursuing these other factors, the FTC employed subjective and pejorative racial stereotypes to try to support the alleged link between credit-based insurance scores and legitimate risk.

"To add insult to injury, the FTC report mimics the insurance industry blaming-the-victim psychobabble of claiming credit history is related to responsibility and risk management. A look at the actual scoring models shows that socio-economic factors have more impact on the score than loan payment history and that an insurance credit score has little to do with personal responsibility and everything to do with economic and racial status," said Shanna L. Smith, president and CEO of the National Fair Housing Alliance.

The group calls on Congress to reject this flawed and biased study and to tell the FTC to conduct an objective, independent study. In addition, based on the available evidence of racial discrimination, Congress should ban the use of insurance credit scoring.

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Center for Economic Justice is a Texas-based non-profit organization that advocates on behalf of low income and minority consumers on insurance, credit and utility issues

Consumer Federation of America is a nonprofit association of some 300 pro-consumer groups, with a combined membership of 50 million people. CFA was founded in 1968 to advance consumers' interests through advocacy and education.

National Consumer Law Center is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC recently released *Credit Scoring and Insurance: Costing Consumers Billions and Perpetuating the Economic Racial Divide,* available at www.consumerlaw.org.

National Fair Housing Alliance is a consortium of more than 220 private, non-profit fair housing organizations, state and local civil rights groups, and individuals from 37 states and the District of Columbia. Headquartered in Washington, DC and founded in 1988, NFHA, through comprehensive education, advocacy and enforcement programs, provides equal access to housing for millions of people.